

Water Utilities

Price:	\$41.19
Fair Value Estimate:	\$70.00
52-Week Range:	\$30.40 - \$54.52
Market Cap (MM):	10,098
Shr.O/S-Diluted (mm):	245.2
Average Daily Volume:	1,230,398
Book Value:	\$18.91
Dividend:	\$1.00
Yield:	2.4%

FYE: Dec	2020E	2021E	2022E
EPS:	\$1.58E	\$1.67E	\$1.78E
Prior EPS:	NC	NC	NC
P/E Ratio:	26.1x	24.7x	23.1x

Quarterly EPS:

Q1	\$0.60A	\$0.66E	\$0.68E
Q2	\$0.29A	\$0.22E	\$0.25E
Q3	\$0.23A	\$0.26E	\$0.27E
Q4	\$0.46E	\$0.52E	\$0.58E

EPS: adjusted

Quarterly Revenue (M):

Q1	\$256A	\$773E	\$794E
Q2	\$384A	\$342E	\$352E
Q3	\$349A	\$360E	\$370E
Q4	\$541E	\$579E	\$601E
Year:	\$1,530E	\$2,053E	\$2,118E



November 5, 2020

Essential Utilities Inc.

(WTRG) - BUY

3Q20 Results Just Above Expectations; Maintain BUY Rating, \$70 Fair Value

PORTFOLIO MANAGER BRIEF

WTRG's 3Q20 adjusted EPS results were just above our expectations (\$0.23 vs. \$0.22) which was also consensus. The Company refined its guidance, as it now expects 2020 adjusted EPS at the upper end of its previously communicated \$1.53 to \$1.58 range (it also expects an earnings growth CAGR of 5-7% for 2019 thru 2022). We've made only minor adjustments to our 2020 & 2021 estimates, and introduced 2022 forecasts. We maintain our BUY rating and \$70 Fair Value, based on a P/E of 39x our 2022 EPS estimate of \$1.78.

ANALYST NOTES

- 3Q20 Results Just Above Expectations. On the top line, revenues of \$349MM were just above our \$342MM estimate (consensus was \$347MM). The upside in our model surprisingly came from the Gas segment, as our estimates already factored in increased volumes in the Water segment due to the hot & dry summer. OPEX in the quarter came in roughly inline with our forecasts, and adjusted EPS of \$0.23 was \$0.01 above our and the consensus forecast of \$0.22.
- Updated (And Refined) Guidance. For 2020, WTRG now sees adjusted EPS at the upper end of its \$1.53 to \$1.58 range. The Company expects an earnings growth CAGR of 5-7% for 2019 through 2022. CAPEX remains on track for \$550MM for the Water segment in 2020 (\$400MM for the Natural Gas segment, including investments made before WTRG ownership). Going forward, it sees \$2.8B of infrastructure investment thru 2022.
- Adjusting 2020/2021 Estimates; Introducing 2022 Forecasts. We've made only minor adjustments to our 2020/2021 estimates; for 2020, we were already at the high end of the Company's \$1.53 - \$1.58 guidance range. We took the \$0.01 of EPS from 4Q20 out of the Natural Gas segment; NOAA forecasts for the Northeast see continuing above normal temperatures through the middle of November.
- Summary/Valuation. A solid quarter, healthy M&A activity (with a robust pipeline of opportunities), strong CAPEX profile and attractive valuation are all reasons we recommend Essential Utilities shares at current price levels. We also note that shares yield 2.43%, the highest in the water utility peer group. We maintain our BUY rating and \$70 Fair Value, which is based on a P/E of 39x our 2022 EPS estimate of \$1.78.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Essential Utilities Inc..

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Essential Utilities Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

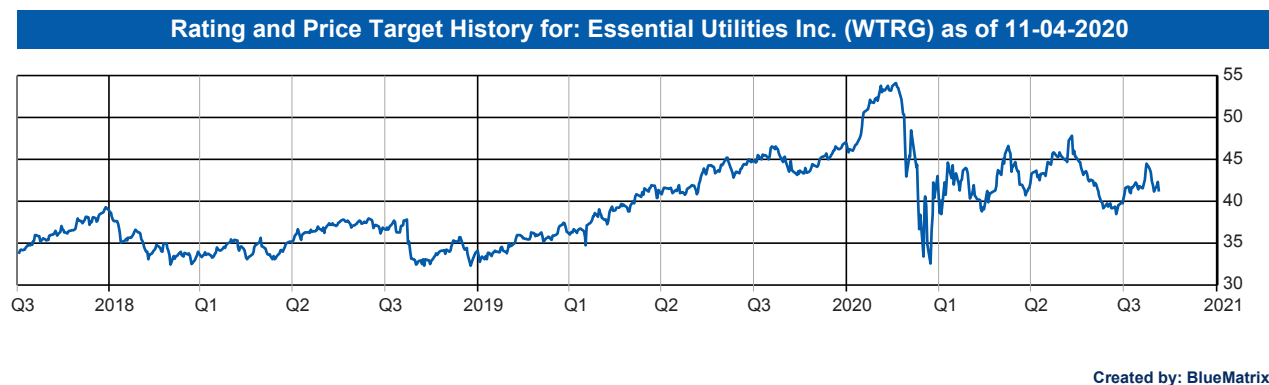
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 09/30/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	117	47.37	18	15.38
NEUTRAL [N]	130	52.63	11	8.46
SELL [S]	0	0.00	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

Janney Montgomery Scott LLC, is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

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